

Message Text

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ACTION H-03

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R 091320Z JUL 77
FM AMEMBASSY JIDDA
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AMEMBASSY AMMAN
AMEMBASSY CAIRO
AMEMBASSY TEL AVIV

C O N F I D E N T I A L SECTION 1 OF 3 JIDDA 4804

E.O. 11652: GDS
TAGS: OREP, OVIP (JAVITS, JACOB K), ENRG, EFIN, EAID,
PGOV, SA, XF
SUBJECT: CODEL JAVITS

1. IN ADDITION TO HIS MEETINGS WITH KING AND CROWN PRINCE
BEING REPORTED SEPARATELY, SENATOR JAVITS HAD MEETINGS
JULY 6-8 WITH MINISTERS OF OIL, FINANCE, AND GOVERNOR OF
MONETARY AGENCY (SAMA), PLUS DINNER HOSTED BY FOREIGN
MINISTER PRINCE SAUD. FOLLOWING REPORTS ON THOSE MEETINGS
WERE CLEARED BY CODEL BEFORE DEPARTURE.

2. IN JULY 6 MEETING WITH SAMA GOVERNOR QURAYSHI, SENATOR
JAVITS REVIEWED INTERNATIONAL PAYMENTS IMBALANCES, NEEDS
OF POOREST LDC'S, OVEREXPOSURE OF BANKS, AND NEED FOR
WITEEVEN FUND AS WELL AS A GREATER LONG-TERM VISION OF
WHAT WORLD COMMUNITY CAN DO. QURAYSHI ANSWERED THAT SAG
BELIEVED PAYMENTS PROBLEM TO BE MANAGEABLE, WITH NOT MORE
THAN 22 COUNTRIES IN REAL DIFFICULTY AND ONLY A FEW. LIKE
ZAIRE, IN SERIOUS BIND. HE NOTED THAT SO FAR THE U.S.
BANKS' EXPOSURE WAS HEAVILY CONCENTRATED IN COUNTRIES
SUCH AS BRAZIL, MEXICO AND KOREA WHICH WERE BASICALLY
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GOOD RISKS. QURAYSHI SAID THAT WITEEVEN FUND, WHICH HE
HOPED TO SEE IN PLACE BY END OF SUMMER, SHOULD BE
ABLE TO SUPPLEMENT HELPFULLY THE ROLE OF THE COMMERCIAL
BANKS. HE ALSO ADVOCATED THAT IMF BE ENCOURAGED TO
BORROW FROM SOURCES OTHER THAN MEMBER GOVERNMENTS. HE
SAID THAT RISING EXPECTATIONS OF LDC'S ASSURED THAT
THERE WOULD BE TURMOIL IN POLITICAL-ECONOMIC WORLD FOR

NEXT GENERATION; INDUSTRIALIZED COUNTRIES SHOULD EASE THE PROCESS, AND HELP THE LDC'S DEVELOP AND HELP THEMSELVES THROUGH MAJOR TECHNICAL ASSISTANCE PROGRAMS.

3. SENATOR JAVITS SAID HE RECOGNIZED SAUDI ARABIA HAD COME INTO A SIGNIFICANT ROLE IN THESE PROBLEMS ONLY RECENTLY, AND THAT NO ONE HAS A RIGHT TO COMPLAIN THAT SA HAS FORGOTTEN THE REST OF THE WORLD. BUT GREATER ACTIVISM AND VISION IS NEEDED FROM ALL, BECAUSE THE PROBLEMS ARE SERIOUS -- WE ARE NOT NOW PREPARED, FOR EXAMPLE, TO DEAL WITH A PROBABLE SOFTENING OF THE ECONOMIC PICTURE WHICH MAY TAKE PLACE AROUND 1980. HE URGED THAT SAG DEVELOP AN EXPANDED VIEW OF ITS RESPONSIBILITIES AND ROLE; IT CAN HAVE AN ENORMOUS INFLUENCE IN SHAPING THE WAY EVENTS WILL BE MANAGED. HE MENTIONED, FOR EXAMPLE, THE NEED FOR FUNDING INITIATIVES SIMILAR TO THE IFAD, ONE (IN WHICH THE SAG HAD BEEN HELPFUL), IN FIELDS SUCH AS HEALTH OR TECHNICAL ASSISTANCE. IN THE MIDDLE EAST PEACE CONTEXT, AN EFFORT TO RESETTLE THE REFUGEES FROM LEBANON, GAZA AND SYRIA, AND TO CONSTRUCT AN ECONOMIC INFRASTRUCTURE FOR THEIR FUTURE COULD BE A POWERFUL INCENTIVE IN WHICH SAUDI ARABIA MIGHT PLAY A KEY PLANNING AND FINANCING ROLE. GOVERNOR QURAYSHI NOTED THAT SAUDI ARABIA WAS A SMALL AND POOR ECONOMY BY COMPARISON TO MOST OF THE INDUSTRIALIZED COUNTRIES, BUT THAT IT WOULD

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PLAY WHAT ROLE IT COULD INCLUDING FOR A MIDDLE EAST SETTLEMENT; THE SAG WOULD RATHER SPEND FOR PEACE THAN WAR.

4. MEETING WITH MINPET YAMANI JULY 6 BEGAN WITH REVIEW, AT MINISTER'S REQUEST, OF SENATOR'S IMPRESSIONS FROM HIS TRIP TO ISRAEL. YAMANI RESPONDED THAT SENATOR'S ACCOUNT MADE HIM PESSIMISTIC FOR CHANCES OF PEACE; IF ISRAELIS WERE UNWILLING TO ACCEPT RETURN OF WEST BANK OR PALESTINIAN ENTITY, WHAT WAS THERE TO TALK ABOUT? SENATOR EMPHASIZED POSSIBILITIES OF AGREEMENT INHERENT IN GIVE AND TAKE ON A RANGE OF ISSUES IN NEGOTIATING SITUATION, AND NOTED THAT POSITION OF ARABS AT THIS

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STAGE WAS ALSO RIGID: PLO HAD NOT MOVED FORWARD AT ALL
AND RABAT RESOLUTIONS ON WEST BANK STILL BOUND ARAB
GOVERNMENTS TO PLO. YAMANI RESPONDED THAT ARAB GOVERN-
MENTS ARE READY TO MAKE PEACE WITH ISRAEL, TO SIGN
PEACE TREATY, AND OVER TIME TO NORMALIZE RELATIONS;
PLO WILL HAVE TO COME ALONG.

5. TURNING TO OIL PRICES, AMBASSADOR WEST SAID USG
WAS GRATEFUL TO MODERATING ROLE PLAYED BY SAG AND
YAMANI IN PARTICULAR. IN RESPONSE, YAMANI
REVIEWED DOHA DECISION AND REHEARSED SAG AGREEMENT
THAT CONSUMERS WILL COME OUT BETTER UNDER UNIFIED 10
PERCENT INCREASE THAN IF OPEC ELEVEN HAD RAISED ANOTHER
5 PERCENT WHILE SAUDIS AND UAE STOOD STILL. HE WENT
ON TO ASSERT, IN SEVERAL REPETITIONS, THAT PROBLEM FOR
OIL CONSUMERS WILL NOT BE PRICE IN FUTURE BUT AVAILABI-
LITY OF OIL. PRICE, HE CLAIMED, WILL RISE NATURALLY
STARTING IN 1979, AND SHARPLY IN THE MID 1980'S. HE
STRESSED KEY SAUDI ROLE IN SUPPLY PICTURE (SAYING IF
THE PIPELINE RUPTURE WHICH CAUSED THE ABQAIQ FIRE HAD
BEEN 15 METERS AWAY IT COULD HAVE CAUSED SUFFICIENT LOSS
OF OIL PRODUCTION TO CAUSE A HALT IN THE U.S. ECONOMIC
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RECOVERY AND NEGATIVE ECONOMIC GROWTH IN JAPAN. WHILE
NOT MAKING ANY SPECIFIC POLITICAL LINKS TO AVAILABILITY
OF OIL, YAMANI DID SAY SAUDI PRODUCTION DECISIONS WOULD
BE TAKEN IN LIGHT OF WORLD POLITICAL SITUATION, INCLUDING
MIDDLE EAST.

6. SENATOR JAVITS CALLED ON MINISTER OF FINANCE,
MOHAMMAD ALI ABA AL-KHAYL JULY 7. AFTER OPENING PLEASANT-

RIES, SENATOR SAID THAT SAUDI ARABIA IS NOW IMPORTANT FOR TWO REASONS: ITS SIGNIFICANT ROLE IN ACHIEVING AN ARAB-ISRAELI SETTLEMENT, AND ITS GROWING IMPORTANCE AS FACTOR IN THE INTERNATIONAL ECONOMY. THE SENATOR MENTIONED THAT HE WAS A MEMBER OF CONGRESSIONAL JOINT ECONOMIC COMMITTEE AND WAS ALSO A DELEGATE TO THE CIEC CONFERENCE IN PARIS. HE REMARKED THAT THE CONFERENCE HAD ENDED VERY BADLY AND THAT HE SAW MANY PROBLEMS AHEAD AND ISSUES TO WORK OUT IF WE WERE TO AVOID SERIOUS PROBLEMS IN THE WORLD MONETARY SYSTEM. THE SENATOR THEN URGED THAT SAUDI ARABIA LOOK DOWN THE ROAD AND CONSIDER THE WAYS IN WHICH IT COULD ASSOCIATE ITSELF INTO THE HIGHER LEVELS OF FINANCE. THE SENATOR SAID THAT SAUDI ARABIA WILL RECEIVE ABOUT HALF OF THE WORLD'S SURPLUS FUNDS FOR THE PERIOD OF TIME EXTENDING INTO THE 1980'S. IT WILL BE ESSENTIAL TO THE WORLD ECONOMY THAT THIS SURPLUS BE DIRECTED INTELLIGENTLY INTO INVESTMENT AND AID. THIS SURPLUS COULD BE A PRICELESS ASSET FOR THE WORLD OR COULD BECOME A TREMENDOUS "PAIN IN THE NECK". THIS ISSUE HAS NOT YET BEEN DECIDED. SAUDI ARABIA IS A COUNTRY THAT IS MOVING RAPIDLY FROM ITS PRIMITIVE PAST INTO THE MODERN WORLD, AND FATE HAS GIVEN IT AN AWESOME ROLE. SAG CAN NO DOUBT SEE THE ABYSS AT ITS FEET BUT IT CAN ALSO MOVE DOWN THE ROAD TOWARD PLAYING A CONSTRUCTIVE ROLE IN DEALING WITH

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THESE PROBLEMS.

7. THE SENATOR SAID THAT THE WEST IS RECOVERING ONLY SLOWLY FROM THE 1973 RECESSION. THE NORTHERN AND SOUTHERN COUNTRIES OF THE WORLD ARE AT LOGGERHEADS. THE POOL OF SAUDI ARABIAN CAPITAL CAN BE A CATALYST THAT WILL HELP PROVIDE THE DEVELOPING WORLD WITH IMPORTANT CAPITAL INVESTMENT. AT PRESENT, THESE COUNTRIES STAND LITTLE CHANCE OF OBTAINING THE NEEDED PRIVATE CAPITAL FROM THE WEST BECAUSE THEY ARE TOO HOSTILE TO PRIVATE INVESTMENT. IN THE MEANTIME, LDC'S ARE TAKING GREAT PSYCHOLOGICAL SATISFACTION FROM OPEC, BUT PSYCHOLOGICAL SATISFACTION WILL NOT FEED THEIR CHILDREN. SAUDI ARABIA SHOULD NOW JOIN WITH THE MIGHTY IN WORKING OUT THESE PROBLEMS.

8. ABA AL-KHAYL AGREED THAT SAUDI ARABIA WAS NOW IN THE MIDDLE. THE MAJOR SPLIT IN THE WORLD IS BETWEEN THE DEVELOPING AND DEVELOPED COUNTRIES, BUT SAUDI ARABIA IS A DEVELOPING COUNTRY WITH A SPECIAL RELATIONSHIP WITH THE DEVELOPED WORLD BECAUSE OF ITS CAPITAL SURPLUS. SAUDI ARABIA MUST TAKE INTO CONSIDERATION THE FOLLOWING:

A) IT MUST CONSIDER CERTAIN POLITICAL FACTORS
ARISING FROM ITS POSITION IN THE ARAB WORLD AND LESSER-

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DEVELOPED WORLD. B) IT IS GAINING EXPERIENCE AND CAN
TAKE A GREATER ROLE AS EXPERIENCE IS ACQUIRED. C) IT
HAS LIQUID ASSETS THAT MUST BE PRESERVED FOR FUTURE USE.
IN DEALING WITH THESE CONSIDERATIONS, SAUDI ARABIA IS
LOOKING DOWN THE ROAD. A FAIR SETTLEMENT OF THE ARAB-
ISRAELI PROBLEM WOULD HELP BECAUSE IT WOULD PERMIT
SAUDI ARABIA TO CHANNEL MORE RESOURCES FOR CONSTRUCTIVE
USE.

9. SENATOR JAVITS THEN MADE SEVERAL SUGGESTIONS
DEALING WITH SAUDI ARABIA'S CURRENT FINANCIAL PROBLEMS.
HE SAID THAT BUDGET TECHNIQUES ARE IMPORTANT AND
PROMISED TO SEND THE MINISTER A COPY OF THE BILL ON
"INDICATIVE PLANNING", WHICH IS NOW BEING PROPOSED TO
THE U.S. CONGRESS. HE ALSO RECOMMENDED THAT THE SAUDIS
TAKE A LOOK AT AT&T'S FINANCIAL PLANNING SYSTEMS. THE
SENATOR THEN MENTIONED THE INVESTMENT TRUST SET UP IN
VENEZUELA TO HANDLE THAT COUNTRY'S FINANCIAL RESERVES.
HE POINTED OUT THAT THE TRUST HAS BOTH PRIVATE AND PUBLIC
PARTICIPATION AND MIGHT BE ADAPTABLE FOR SAUDI ARABIA'S
PURPOSES. SENATOR THEN MENTIONED THE POSSIBILITY OF
SETTING UP A "THINK TANK" MODELED AFTER THE RAND COR-
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PORATION, THE HUDSON INSTITUTE, BROOKING INSTITUTE, OR ONE OF THE OTHER AMERICAN ORGANIZATIONS. HE SAID THAT THE "THINK TANK" CAN BE VERY USEFUL IN SAVING THE TIME OF SENIOR OFFICIALS BY IDENTIFYING THE ISSUES AND PREPARING OPTIONS. MINISTER ABA AL-KHAYL THANKED THE SENATOR FOR HIS SUGGESTIONS AND SAID THAT VENEZUELA LUMPED ITS INVESTMENT AND AID PROGRAMS TOGETHER, BUT SAUDI ARABIA PREFERRED TO KEEP THEM SEPARATE. HE AGREED THAN A "THINK TANK" WOULD BE A GOOD IDEA BECAUSE SENIOR OFFICIALS ARE TOO BUSY WITH DAY-TO-DAY OPERATIONS AND DID NOT HAVE TIME TO LOOK AT LONGER TERM IMPLICATIONS. HE SAID THAT ONE PROBLEM IS THE ACUTE SHORTAGE OF QUALIFIED STAFF. SAUDI ARABIA WOULD PREFER TO HAVE SUCH AN IMPORTANT POLICY ORGANIZATION MANNED BY ITS OWN NATIONALS BUT WOULD HAVE TROUBLE FINDING QUALIFIED SAUDIS. AS AN EXAMPLE OF STAFF SHORTAGE, ABA AL-KHAYL MENTIONED THAT SAUDI ARABIA HAS NOW THE RIGHT TO NAME AN EXECUTIVE DIRECTOR IN THE IMF BUT SO FAR HAS BEEN UNABLE TO FIND A SUITABLE NOMINEE. SENATOR JAVITS MENTIONED THAT ADELA INVESTING COMPANY HAD BEEN DESIGNED TO ENCOURAGE THE ESTABLISHMENT OF PRIVATE ENTERPRISE IN THE DEVELOPING COUNTRIES. HE PROMISED TO SEND A COPY OF THE LATEST ANNUAL REPORT TO THE MINISTER. THE MINISTER MENTIONED THE NUMEROUS PRIVATE INTER-ARAB CORPORATIONS THAT THE ARAB STATES ARE NOW IN THE PROCESS OF ORGANIZING. HE SAID THESE COMPANIES ARE COMMERCIALY ORIENTED AND ARE NOT VIEWED AS A CHANNEL FOR ASSISTANCE. THE SENATOR MENTIONED THAT HE WOULD LIKE TO INSPIRE THE CREATION OF A MIDDLE EAST ADELA CORPORATION AND SUGGESTED THAT THE MINISTER MIGHT BE INTERESTED IN TALKING WITH ONE OF THEIR KEY EXECUTIVES.

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Message Attributes

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